

PRESS RELEASE

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Minnesota Income Tax Rankings Decline Slightly; Tax Rankings Mostly Out of Top Ten; Income Tax Structure Still One of the Most Progressive in the Nation

The Minnesota Center for Public Finance Research, the supporting research arm of the Minnesota Taxpayers Association announced today the release of a new comparison study of state income taxes, prepared with the cooperation of 22 other state taxpayer organizations comprising the National Taxpayers Conference. The report updates three previous studies issued by for tax years 1997, 1999 and 2003.

The study compares individual income tax burdens on four filer types – married-joint, single, head-of-household, and senior married-joint – at different income levels ranging from \$10,000 to \$1 million in 41 states and the District of Columbia. Calculations were made using the TAXSIM income tax simulator developed by the National Bureau of Economic Research on median data from tax year 2006 Minnesota returns provided by the Minnesota Department of Revenue.

KEY FINDINGS:

- Minnesota income tax rankings remained the same or declined slightly from 2003 for the majority of single, married, and head of household filers.
- Minnesotans commonly pay between 7%-23% more in income taxes than the national average depending on filing type and income level.
- Minnesota retains one of the most significantly progressive state income tax structures in the nation:
 - Ranks for single filers rise from 28th at \$10,000 of gross income to 9th at \$250,000 of gross income.
 - Ranks for married filers rise from 39th at \$10,000 of gross income to 9th at \$1 million of gross income.
 - Ranks for head of household filers rise from 39th at \$10,000 of gross income to 12th at \$100,000 of gross income (peaking at 11th for filers with \$75,000 of gross income).
 - Married filers with incomes of \$500,000 and above and single filers with incomes of \$100,000 and higher continue to rank in the top ten nationally.
 - For married joint filers, effective tax rate differences between high and low income earners place Minnesota 4th nationally in income tax progressivity.
- Few states provide more favorable income tax treatment for lower earning households. Minnesota ranks near the bottom (from 39th to 41st out of 41 states plus D.C.) for married and head of household filers earning \$20,000 or less. At the \$35,000 gross income level, the tax on Minnesota married filers is \$277 which is 39.5% of the national average.
- Minnesota's Working Family Credit -- the state version of the federal earned income tax credit-- has a significant effect on structural progressivity and state rankings. At the very low income levels, the tax for married and head

of household filers is negative ranging from (\$373) to (\$1,552) for incomes of \$10,000 - \$20,000 compared to the U.S. average of (\$262) to \$245 over that same income range. New eligibility for the working family credit was the primary reason why Minnesota's rank for married joint filers at the \$35,000 gross income level dropped 10 spots since 2003 (from 26th to 36th in the nation).

- Senior filers with incomes of \$35,000 and \$50,000 ranked in the top ten nationally paying approximately 90% more in state income taxes (about \$400-\$800) than the national average. Minnesota is one of the few states that provides no additional state exemptions for Social Security or pension income while subjecting this larger tax base to higher tax rates than most states.

“Tax fairness gets a lot of attention in Minnesota so it’s important to recognize that Minnesota already has one of the most progressive income tax systems in the nation,” notes Mark Haveman, Executive Director of the Minnesota Taxpayers Association. “This study shows that ‘ability to pay’ considerations are already well-established in the state’s revenue system. Any efforts to introduce even more progressivity should be approached with great care since more progressivity often comes at the expense of other, equally important, tax policy principles such as revenue stability and accountability.”

Looking forward, Haveman sees the potential for significant reshuffling in future ranking studies. “Economic conditions have prompted a wide variety of state responses including changes to individual income tax rates – both up and down. The landscape of state income taxation is changing rapidly and will likely continue to do so as state fiscal problems persist.”

The full report is available to the general public on MTA’s website at www.mntax.org/cpfr

The Minnesota Taxpayers Association was founded in 1926 for the purpose of disseminating factual information to educate and inform all Minnesotans about Minnesota tax and spending policies. MTA is a non-profit, nonpartisan organization and membership is statewide, open to all, and representative of every category of taxpayer. For over eighty years, the Association has dedicated itself to being an independent voice for good government and has advocated for the adoption of sound fiscal policies through its research efforts, publications, and meetings. The Minnesota Center for Public Finance Research is the supporting research and education organization for the Minnesota Taxpayers Association.

Minnesota's 2006 Individual Income Tax Rank by Filer Type and Income Federal Adjusted Gross Income

Note: 41 states and the District of Columbia are included in this study. The nine remaining states have no general state income tax.

Rank of 1 is highest and 42 is lowest. U.S. Average = 100

MINNESOTA					
FILING STATUS	GROSS INCOME	Rank		Net Tax as % of U.S. Average	
		2003	2006	2003	2006
Single	\$10,000	22	28	85.1	39.6
Single	\$20,000	19	20	108.4	107.9
Single	\$35,000	14	17	109.5	107.6
Single	\$50,000	11	10	116.1	119.3
Single	\$75,000	9	11	114.7	117.3
Single	\$100,000	7	10	117.5	119.1
Single	\$150,000	10	9	119.1	120.6
Single	\$250,000	9	9	121.9	123.0
Married	\$10,000	39	39	*	*
Married	\$20,000	42	41	*	*
Married	\$35,000	26	36	79.1	39.5
Married	\$50,000	23	23	102.1	101.2
Married	\$75,000	19	19	107.5	107.8
Married	\$100,000	18	16	106.7	109.0
Married	\$150,000	14	12	111.4	111.5
Married	\$250,000	10	11	117.7	116.6
Married	\$500,000	10	9	121.7	121.1
Married	\$1,000,000	9	9	122.6	122.7
HHouse	\$10,000	39	39	*	*
HHouse	\$20,000	40	40	NA	NA
HHouse	\$35,000	22	22	99.1	98.4
HHouse	\$50,000	17	14	113.0	115.2
HHouse	\$75,000	12	11	114.3	116.9
HHouse	\$100,000	12	12	113.7	115.5
Senior	\$10,000	T6	T6	*	*
Senior	\$20,000	14	24	122.5	36.4
Senior	\$35,000	10	7	168.3	189.3
Senior	\$50,000	7	4	174.6	195.6
<p>* Net taxes as a percent of average are not calculated for lower incomes in which the U.S. average taxes are less than \$50 because resulting percentage comparisons to national averages can be misleading.</p> <p>NA: Not applicable, since net state tax is negative largely due to state earned income tax credit program benefits. Result of 0.0 indicates no net state tax liability.</p> <p>Note: At \$10,000 FAGI for Senior filers, 30 states are tied for 6th place with a net tax of \$0.</p>					